

Seminario Internacional
Hacia un desarrollo inclusivo en América Latina y Chile
CEPAL, IPD, FEPS

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Financing development in an uncertain world:
Evidence, beliefs and statements
based on BNDES experience

João Carlos Ferraz




The relevant issues and the international context

Long term financing serves purposes:

- **More and better jobs;**
- **More and better infrastructure projects;**
- **More and better innovative and competitive capabilities**

A development financing strategy is even more relevant when there is...



- Increasing **diversity among countries in the capacity to prosper**, amidst a crisis of long duration
- **Fierce competition** in all markets for the generation, appropriation and distribution of wealth
- Extremely fast rate of technical change and increasing **investments in innovation** by countries and corporations
- **State activism**. The recent crisis has shown its relevance but “a role model” does/will not exist 

The recent evidence

Besides large domestic markets and proactive public policies, **countries less affected by the financial crisis have:**

- A well-regulated financial system 
- Strong public banks (ahead)

The 2007-2008 crisis: State actions to degrees, extensions and intensiveness never thought of!



Tax incentives & support to the Financial System in selected countries (% of GDP)

	Tax Incentive	Support to Financial System	Years to spend the tax incentive
Developed Economies	3.7	48.5	-
France	1.5	19.1	2
Germany	3.6	22.2	2
Japan	4.7	22.3	3
United Kingdom	1.9	81.7	3
United States of America	5.5	81.1	3
Emerging Economies	4.7	2.9	-
Brazil	5.6	1.5	1
China	6.2	0.5	2
India	1.8	6.4	3
Russian Federation	5.4	8.0	2
Total	4.0	36.1	-

What have we seen?



USA proposals	Brazilian practices
Create a regulatory and supervision council	In place (National Monetary Council)
Increase FED's controlling powers	Central Bank inspects and regulates financial sector
Strengthen capital requirements of Banks	BIS 8%; Brazil, 11%
Regulate over-the-counter derivative market, including default swaps	Over-the-counter derivatives are registered at the Stock Exchange

Financing development: the Brazilian experience

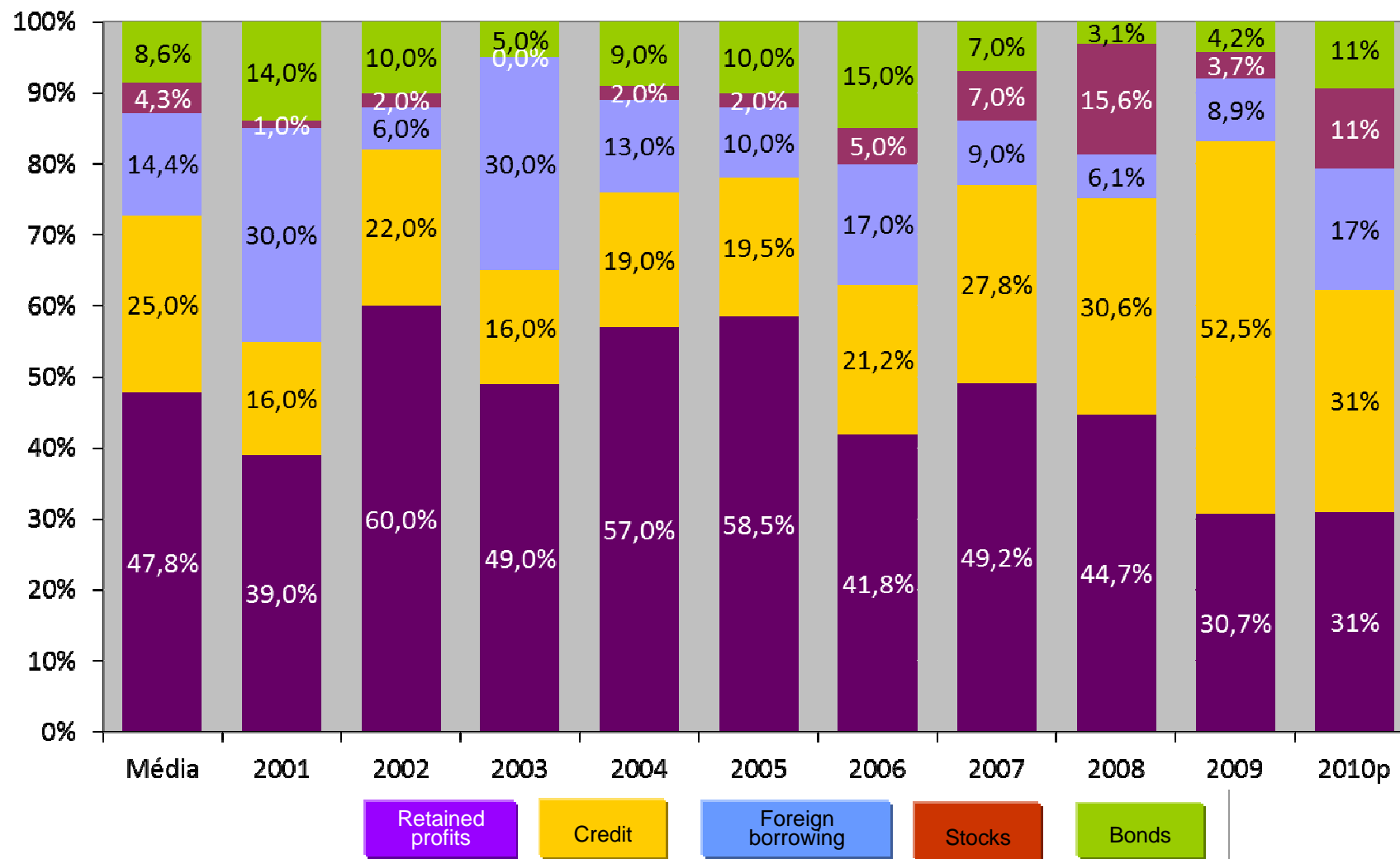
As market sources are pro-cyclical...

- A development bank is a stabilizing device
- Attention!!! Scale and scope matters
- And... it must follow the investment cycle
- But... pro-activity is necessary during crisis
- The effective contribution: investment and employment



The financing of investment: market sources are pro-cyclical

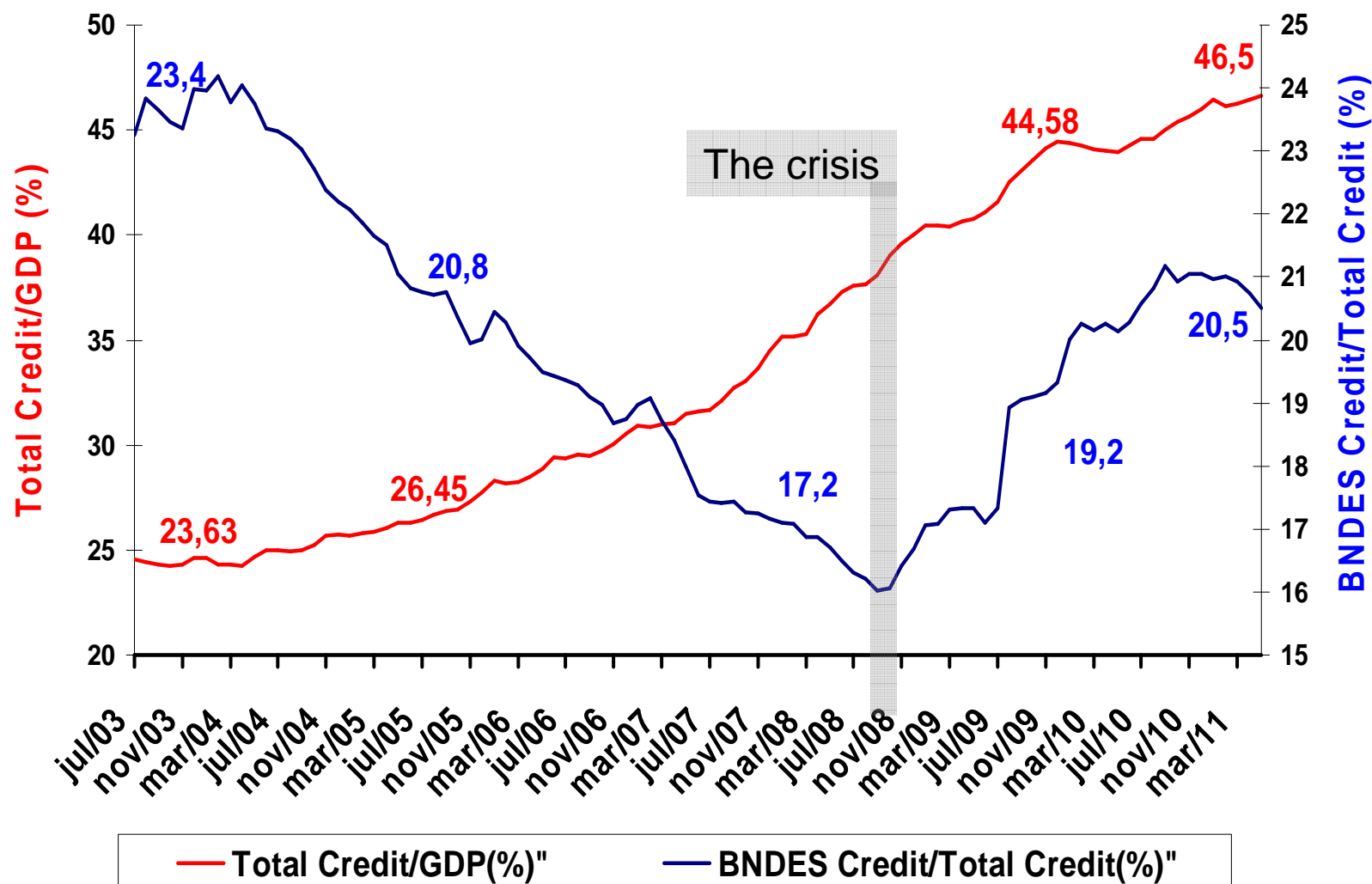
Brazil: financing sources for investments in industry and infrastructure



BNDES has a countercyclical role in the economy



Credit to GDP and BNDES share



Development banks: scale and scope matters



BNDES

- ✓ Main provider of long-term financing in Brazil
- ✓ 100% state-owned company under private law
- ✓ Institutional funding
- ✓ 2,500 employees
- ✓ Instruments
 - Direct operations
 - Indirect operations
 - Financing & guarantee for SMEs
 - Export finance
 - Project finance
 - Equity investments
 - Grants



Development Banks

US\$ billion

	Assets	Equity	Disbursement	ROE
BNDES	329.5	39.6	96.3	21.2%
World Bank	282.8	37.4	28.9	-2.3%
IADB	87.2	21	10.3	1.6%
CAF	18.6	5.8	4.6	3.7%
China DB	665.2	55.5	93	8.8%

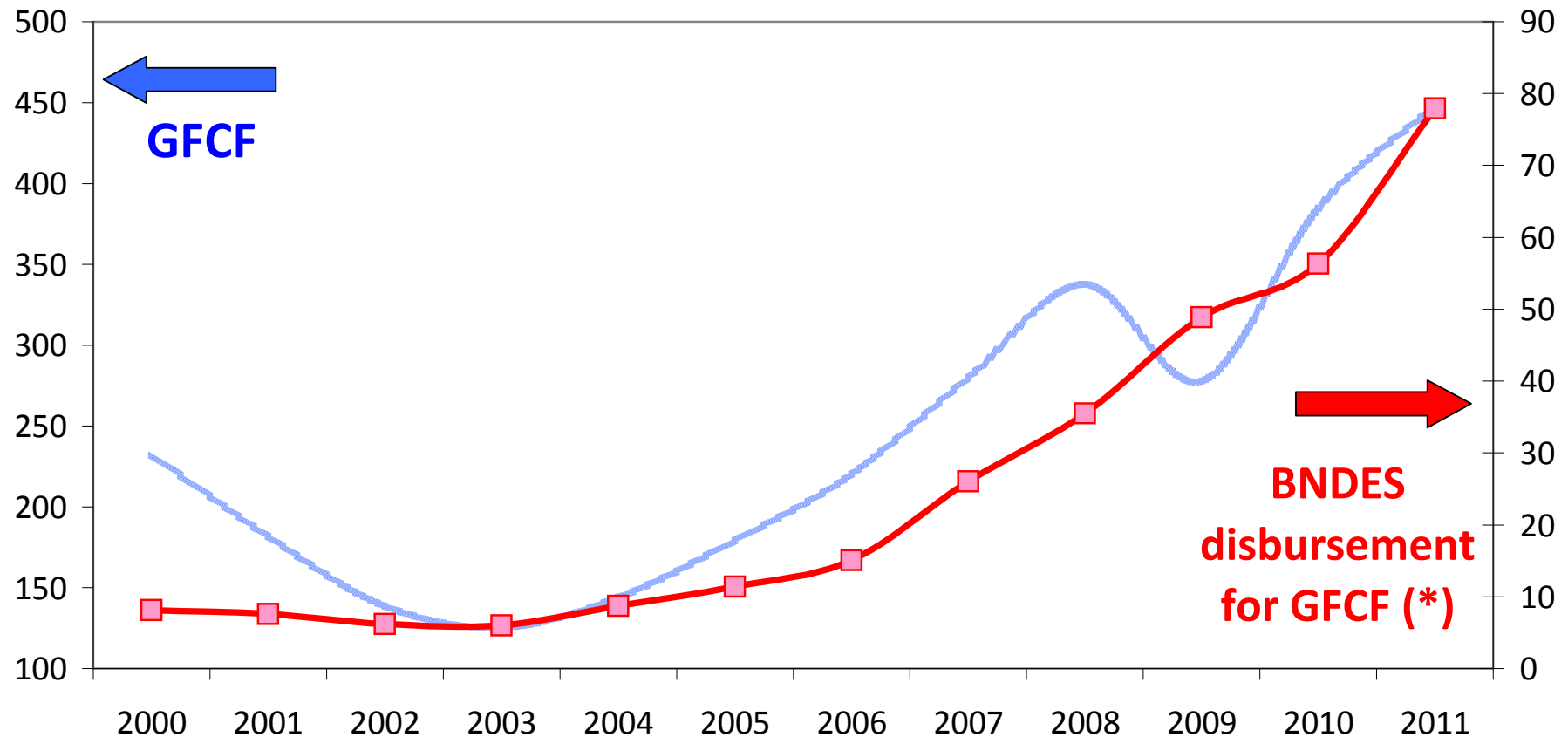
Sources: BNDES (Dec 31. 2010), IADB (Dec 31. 2010), WB (Jun 30. 2010), CAF (Dec 31. 2010) e CDB (Dec 31. 2010)

NPL: 0.15%; Brazil Financial Industry: 3.8%

BNDES follows up the investment cycle



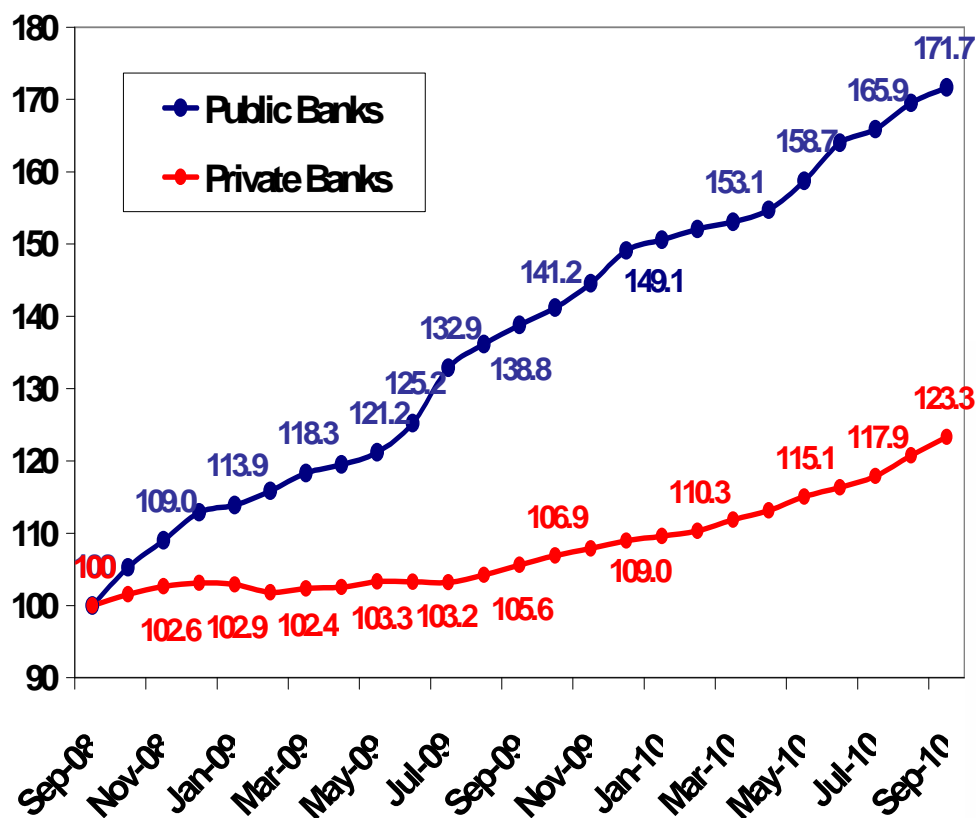
Gross Fixed Capital Formation (GFCF) & BNDES disbursements
(US\$ Billion)



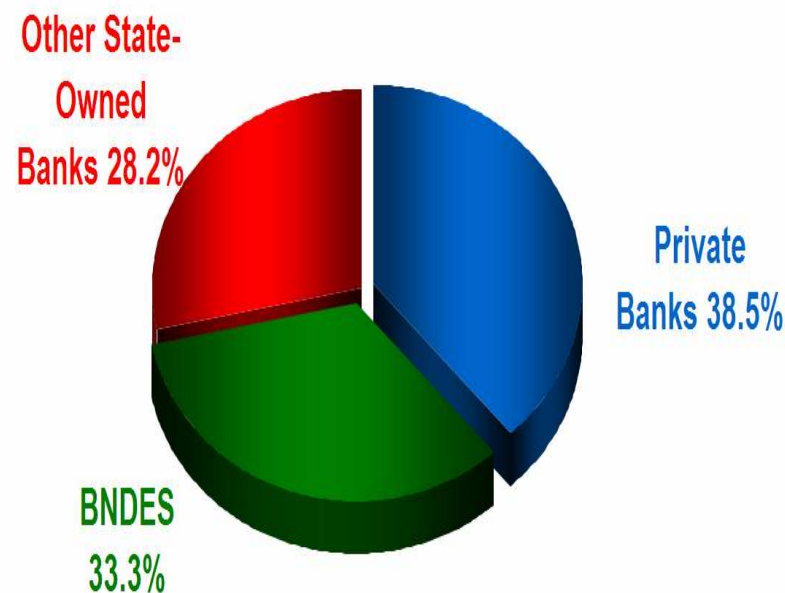
(*) exc. BNDES Exim; working capital, M&A and Equity Financing.

Support credit during crisis

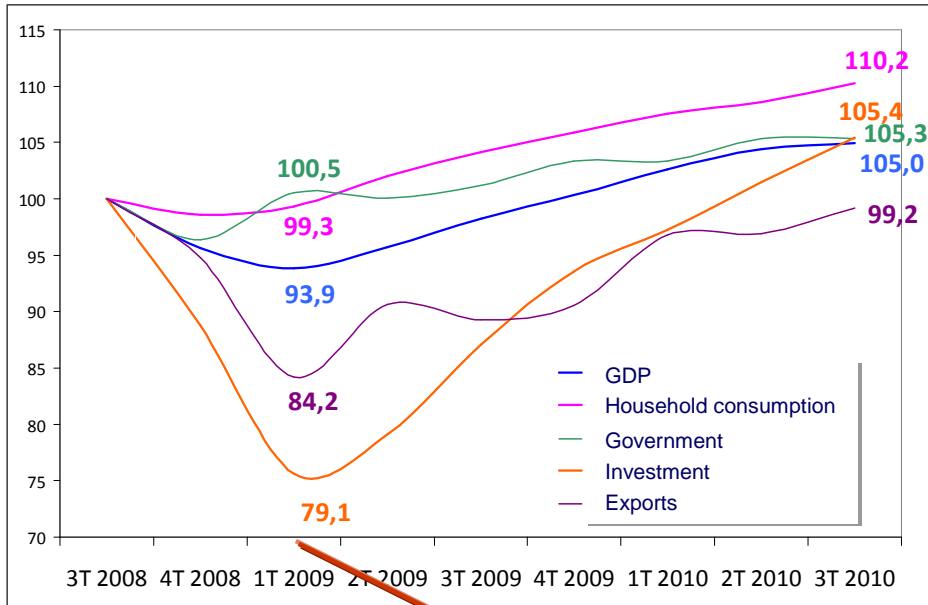
Evolution of bank credit. Sept./08 = 100



Contribution to the growth of bank credit 09/08 – 09/10



During the crisis: pro-active policies to sharply decrease the cost of capital



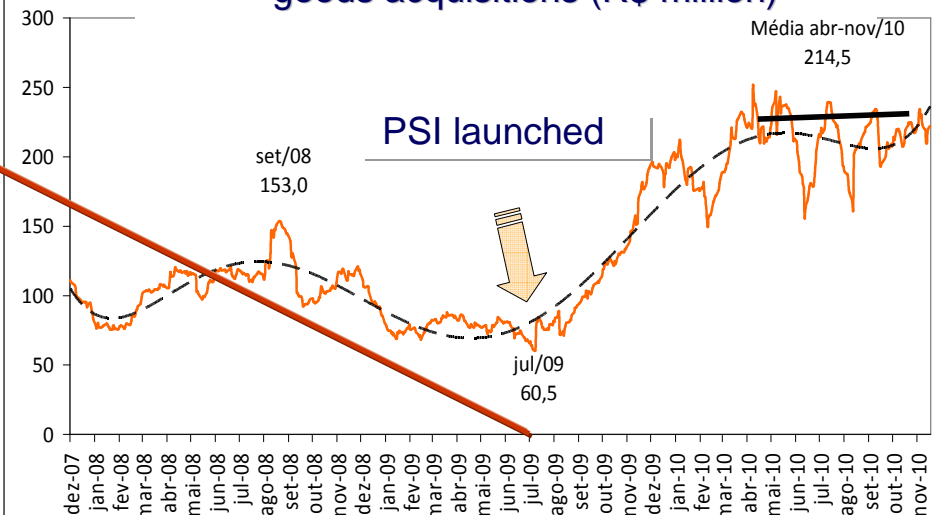
Growth Rates (3Q 2008= 100)



PSI

Investment Support Programme
in which interest rates were
substantially reduced thanks to
an equalization programme by
Finance Ministry

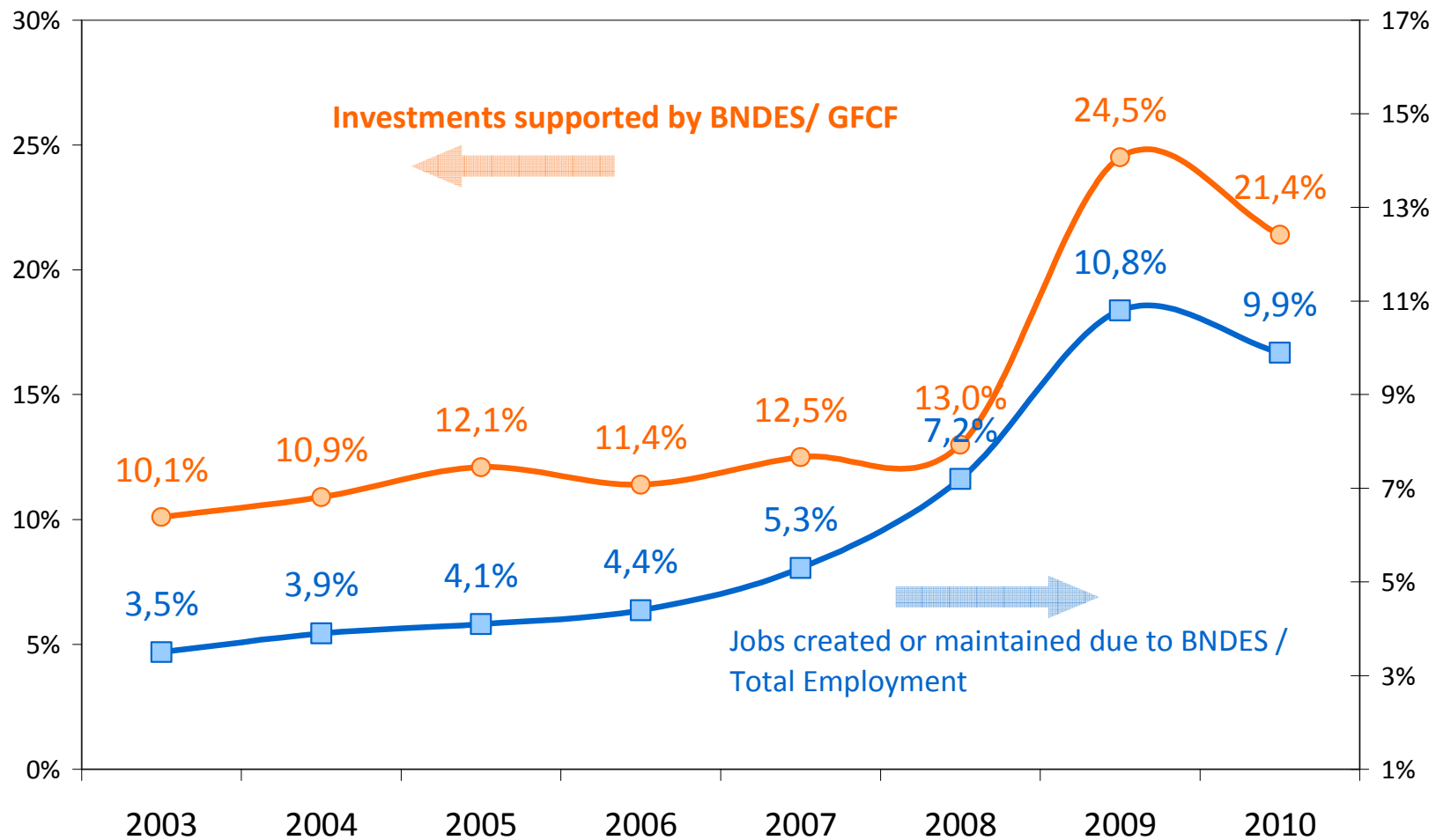
BNDES daily disbursements for capital goods acquisitions (R\$ million)



BNDES financing is relevant for investment and employment



Impact of BNDES disbursements on employment and investment



Statements and beliefs

- **Without a Developmentist State, there is no development** (Thanks, Peter Evans).
- **Contemporary State:** focus on building up competences => more and better jobs.
- **Financing development** must involve **more State and more Market**.
- **Public banks are essential** for systemic stability and the permanent availability of investment financing.
- To be effective, a **Development Bank must have the necessary means**.

Each nation has its own structure, history & aspirations. Hence, singular institutions. BNDES is a singular institution. But, features of its “DNA” may serve as “food for thought”:

- **Learning:** flexibility and adaptation to change
- **Public service:** having the public interest as a central value
- **Obsession** with investment, with development
- **Hands on the real economy:** ready, on place, on time
- **Competence:** a credible, effective and efficient institution
- **Negotiating** skills: the capacity to interact with stakeholders
- **Political leadership** – at the institution, in the country

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